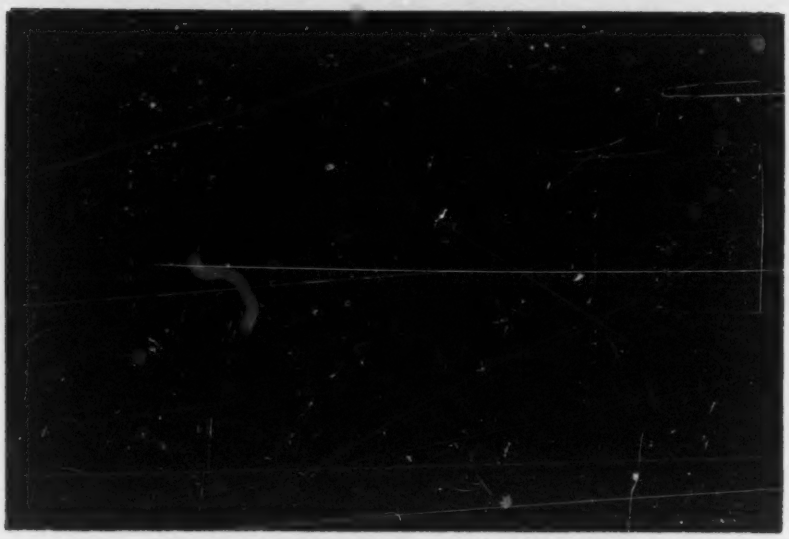
# SURVEYS OF CONSUMER ATTITUDES



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# CONSUMER SAVING AND SPENDING: PROSPECTS FOR THE DECADE AHEAD

By

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## Introduction

Economic, demographic, and psychological factors indicate a shift in household financial portfolios towards asset accumulation and away from debt incurrence in the decade ahead. In terms of consumer spending, much of the adverse impact will be shouldered by sales of houses, vehicles, and large household durables. But change over the entire decade will be modest. Current government economic policies, however, view increases in consumer saving as an important goal, and these policies will facilitate and may even exaggerate the existing underlying shift from spending to saving.

## NIA Vs. FRB Saving

What is consumer saving? Saving can be defined as the change in the net worth of the consumer--the difference between the net acquisition of assets and the net incurrence of liabilities. The most widely used measure of consumer saving is derived from the National Income Accounts (NIA), and is published as the percent of disposable personal income that is saved. NIA saving is measured as a residual--taxes and spending are deducted from personal income, with the remainder labeled saving. Using the NIA measure, the late 1970s were a period of historically low levels of saving. As shown in Chart 2, the NIA saving rate appears to indicate that the saving habits of American consumers changed drastically in the late 1970s. From 1977 to the present, the NIA saving rate has remained in the 5 to 6 percent range, a level only reached at cyclical lowpoints during the preceding quarter century. Moreover, the NIA savings rate had demonstrated a cyclical trend in the 25 years prior to 1977, usually reaching a peak when the general economy was in recession. Since 1977, however, the NIA saving rate has been unresponsive to general economic trends.

A second measure of consumer saving can be derived from the Federal Reserve Board's Flow of Funds Accounts. In contrast to the NIA approach, the FRB Accounts directly measure changes in financial assets and liabilities. Estimates of consumer saving using the FRB accounts, however, are also residuals, since financial transactions made by the business and other sectors are estimated and then deducted from the totals to measure household saving. As shown in Chart 3, the FRB saving rate generally exhibits an upward time trend over the past 30 years. Both the NIA and the FRB saving measures are incomplete in their coverage of nonfinancial savings. These omissions are not very important for the current analysis, since the primary concern involves how much saving consumers provide the financial markets for business investments.

Importantly, while the NIA saving rate remains near low levels from 1977 to the present, the FRB saving rate increased significantly in 1980-81. While the NIA saving rate indicates the chronic shortage of investment funds often referred to by public policy makers, the FRB saving rate indicates no such chronic situation.

Charts 4 and 5 give greater detail on the difference between the NIA and FRB saving rates. In the early 1950s, the NIA saving rate was approximately 4 percentage points higher than the FRB saving rate. In general, from the 1950s to the mid-1960s the NIA saving rate exceeded the FRB saving rate. From the mid-1960s to the mid-1970s the NIA saving rate was generally below the FRB rate but the difference was relatively small. In contrast, by 1981 the FRB saving rate exceeded the NIA rate by 4 percentage points. Although the recent divergence is consistent with the long term trend, at no time during the past 30 years has the divergence increased as sharply. At present, the differences are very large: $107.3 billion was saved in 1981 when estimated according to the NIA procedures, compared with $191.4 billion

dollars based on the FRB procedures. As shown in Table 1, the difference rose sharply, from about $7 billion in 1978 and 1979 to $68.2 billion in 1980 and $84.1 billion in 1981.

How can this divergence be explained? It is of course true that the two saving measures are based on conceptually distinct approaches that defy exact reconciliation. Two major hypotheses have been advanced to explain the recent and sharp increase in the divergence. Given the nature of the FRB estimates, a likely source of error involves the allocation of total financial flows into the various sectors. The FRB accounts may have allocated too few dollars to the business and foreign sectors, and thus overestimated consumer savings (see Table 1, Sector Discrepancies).

A second hypothesis is that the problem lies in the underestimation of personal disposable income in the NIA accounts. To calculate NIA savings, direct reporting of sales information is used to estimate spending, but personal income is estimated from IRS data. In past years, IRS information was regularly updated and incorporated into revised estimates of personal income. This procedure has slowed. The current NIA estimates of personal income are based on IRS data collected in 1977 and earlier. Current plans call for the NIA data base to be updated to include 1979 and 1980 IRS data, with revision published late in 1982, if required. If NIA personal disposable income is underestimated, it would not only cause NIA saving to be underestimated, it would also cause the FRB saving rate to be overestimated (since the income base should have been larger).

At the present time, I cannot tell you whether one or both of these hypotheses are correct. But until the recent sharp divergence in the NIA and FRB data are understood, analysts must view saving data with skepticism. Models which use consumer saving either as an independent or dependent variable must recognize the potential for misleading signals due to data

deficiency. If personal disposable income is the source of these data problems, a much wider array of models will be affected, although the errors in the income measures themselves will be relatively small compared with their exaggerated effect on savings estimates. Moreover, these data inadequacies may lead to public policy confusion. Given NIA saving data, policies which act to increase consumer saving may be viewed as well founded and appropriate. If, however, NIA saving data underestimates the actual level, such policies could lead to undesirable increases in saving.

Trends in Assets and Debts

Apart from the issue of the recent divergences, the FRB saving data does indicate a long term secular decline in net saving. During the past 30 years, net acquisition of financial assets grew at a slower pace than net incurrence of debt, so that the ratio of assets to debt declined (see Chart 6). In 1952, an average of $5.29 in financial assets were held for each dollar in liabilities. By 1981 this figure had declined to $2.92 (see Table 2). Most of the decline in the asset/debt ratio was recorded in the early 1950s and early 1970s. Since it is misleading to include the mortgage as a liability but not the house as an asset, home mortgages were excluded from total liabilities for some of the calculations presented in Table 2. But even with this change, the ratio of financial assets to nonmortgage debt fell from $12.78 in 1952 to $8.26 in 1981.

An examination of the asset/income and debt/income ratios presented in Table 2 indicate only a modest change in the asset/income ratios, compared with a more significant increase in the debt/income ratios. These data indicate that the longer term secular decline in net savings was not due to declines in asset accumulation as much as to greater increases in debt.

In addition, cyclical changes in net savings were also dominated by trends in debt. Chart 7 indicates trends in the net acquisition of assets and liabilities, both as a precent of disposable income. In general, trends in the rate of asset and debt acquisition have followed a pro-cyclical pattern: good economic times brought forth greater additions to saving and greater additions to debt. Because the rate of debt incurrence rose faster than asset acquisition in good times, and fell faster in bad times, the net saving rate moved in a counter cyclical trend.

Determinants of Saving and Spending Trends

During the past 30 years declines in net savings resulted from debt incurrence, which in turn reflected trends in sales of houses, vehicles, and large household durables. Four primary factors underlie these trends: a) demographic, b) economic, c) psychological, and d) public policies. In the decade of the 1980s, these factors will act to increase saving; these factors will shift from exerting pressure on spending to exerting pressure on saving.

Demographic. Several interrelated demographic trends will continue to shape consumer demand in the decade ahead: changes in the age structure and size of the adult population, changes in the rate of household formation and household composition, and changes in the growth of the labor force. The so-called baby boom generation will begin the transition from the early adult life cycle stage (which was characterized by the heavy use of debt for first purchases of vehicles, houses, and durables) to the stage in which asset accumulation receives relatively greater emphasis. I will not discuss this area in detail, only noting that these demographic trends will no longer provide a significant source of long term growth. Furthermore, the decade of the 1980's will only begin the demographic transition to an older

population; a relatively greater impact can be expected during the 1990's from these same demographic trends.

Economic. The most basic economic change from prior decades is that real interest rates on both investments and borrowed funds will be higher. The range of new financial instruments and the higher rates of return now available to consumers have been accompanied by both a significant restructuring of the financial services industry as well as significant changes in the financial behavior of American households. At the same time, and in part as a consequence of the increased cost of funds, interest rates on debt have also increased. More importantly, interest rates on debt are now more responsive to trends in inflation and quickly reflect a built-in premium for expected inflation. These lasting changes in the structure of interest rates will result in raising the appeal of savings and increasing the distaste for debt, apart from whether current monetary policy is tight or easy.

Psychological. During the past several decades inflation has been the yardstick of economic performance that consumers used to evaluate both their personal financial situation and the prospects for the economy as a whole. In the decade ahead interest rates may well replace inflation as the "looking glass" through which consumers evaluate their own situation and that of the economy at large.

Consumers show an accurate awareness of the current level of interest rates, and consumer behavior is sensitive to changes in the rates for both loans and assets. Greater detail on the debt side of the balance sheet will be discussed later. In terms of asset accumulation, the growth in the importance of short term interest rates is indicated by the change in the proportion of total assets held in savings deposits, shown in Table 3. In 1981, 33 percent of all financial assets were held in saving deposits, more

than twice the level recorded in 1952 (15 percent). The share of assets represented by corporate equities has declined since the mid-1960's (from 43 percent in 1967 to 23 percent in 1981). Interestingly, the proportion of assets held in life insurance reserves has declined while pension fund reserves have increased. Further increases in pension fund reserves should be expected in the coming decade as the population ages.

Not only have interest rates become more important for investment planning but they have also become a more important source of personal income. As shown in Table 4, interest income now constitutes 12 percent of total personal income, up from 8 percent in 1972 and 4 percent in 1952.

Insofar as consumers are faced with new types of financial instruments, in general consumers will more eagerly and quickly adopt new asset instruments rather than debt instruments. Recent behavior indicates that consumers vary their willingness to adopt new financial instruments and behaviors. New types of accounts, such as NOW accounts, money market funds, cash management accounts, and IRAs have been adopted quickly, while other financial innovations have been accepted more begrudgingly. There is likely to be more resistance to new forms of debt financing because of variable rates on installment and mortgage debt. These variations shift more risk to the consumer and pose problems for household budgeting--risks and problems that need to be hedged by greater savings and reserve funds.

Another psychological factor involves how consumer aspirations and motives change over the life cycle. The aging of the population implies that saving relative to spending motives will increase during the decade ahead.

Public Policies. One of the current goals of public policy is to increase consumer saving to provide the necessary capital for business investments (and government deficits). The principal tools of this policy have

been a tight monetary policy coupled with tax and expenditure cuts. This mix of policies has been viewed by some as a paradox: some aspects of the policies act to restrict the economy, while the others stimulate expansion. In terms of consumer savings, however, these policies do not lead to contradictory results. The tight monetary policy aims to achieve the lower rates of inflation needed for savings to prosper. The high rates of interest which accompany the deficits have also induced consumers to shift from debt acquisition to asset accumulation. The expenditure cuts, in addition to thier direct impact on social programs, may send important signals to consumers. The primary motives for saving, documented in more than thirty years of surveys, have been a) to provide security and emergency funds in case of economic adversity, b) for the education of children, and c) for retirement. The expenditure cuts may result in consumers becoming more concerned about each of these areas, and hence raise the desired level of saving and reserve funds.

Consumer Spending

Turning to spending behavior, the same demographic, economic and psychological factors will also slow the rate of growth in consumer sales during the next decade.

Vehicle Sales. During the 1950's and 1960's new car sales were dominated by an upward trend, with relatively small cyclical variations (see Chart 8). From 1960 to the 1973 peak, new car sales rose from 6.1 million units to their all-time peak level of 11.4 million per year, a higher level than the most recent cyclical peak of 11.1 million units recorded in 1978. Measures of the growth in the new car market underestimate new vehicle demand by private households insofar as light trucks and vans have been substituted for cars. Data on retail sales of light trucks (10,000 pounds or less,

including vans, pickups, utility, and other vehicles) indicate substantial growth during the past decade. New light truck sales rose to 3.6 million in 1978 from the prior cyclical peaks of 2.7 million in 1973, and 1.6 million in 1969. When data on new car and light truck sales are combined, total annual vehicle sales rose from a cyclical peak of 14.0 million in 1973 to 14.8 million in 1978--just a 6 percent gain. In contrast, from the 1969 to the 1973 peak, total vehicle sales rose from 11.2 to 14.0 million--a 26 percent gain.

By 1981, however, total vehicle sales were 10.6 million, a decline of 28 percent from 1978, and below the 10.7 million sold in 1975. Sales of imported cars and light trucks advanced at a rather steady pace during the past decade at the same time that sales of domestic cars and light trucks fluctuated more widely. Thus the cyclical pattern in total vehicle sales has exaggerated the resulting increases and decreases in the market share of imported vehicles.

Chart 9 shows the close relationship of consumer attitudes towards buying conditions for automobiles and total retail sales of cars. Underlying the overall market attitudes are the reasons consumers give for those opinions. Tight credit and buy-in-advance price rationales, shown in Chart 10, have dominated the auto market. These two reasons show a mirror image, and reflect the changes in importance of interest rates and inflation. In April 1982, references to high interest rates remained near record levels--mentioned by 29 percent (record peak: 31 percent in 1981). On the other hand, the impact of car prices on consumer attitudes has shifted: as shown in Chart 11, in early 1982 mentions of low prices were as frequent as mentions of high prices, a unique situation.

House Sales. During the decade of the 1970's, annual sales of single family homes more than doubled and reached a peak level of 4.7

million units in 1978 (see Chart 12). The 1969-70 and 1974-75 recessions represented only short pauses in the dominant upward trend. For example, annual sales totaled 3.0 million in 1973, subsequently fell to 2.8 million in 1974, but quickly rebounded to 3.0 million by 1975. From 1977 to 1979, annual sales of single family homes averaged 4.5 million, despite steep rises in prices and mortgage rates. In contrast, the current recession has cut deeply into sales: annual sales fell from 4.7 million in 1978 to 2.8 million in 1981, leaving the 1981 sales level below the 10-year earlier figure.

Cyclical declines in sales were recorded only for new homes in the 1969-70 and 1974-75 recession periods. From 1972 to 1974 annual sales of existing homes remained unchanged at 2.3 million, while sales of new homes fell from 0.7 to 0.5 million (a 29 percent decline). So in the past, while sales of existing homes were maintained during trough periods and nearly doubled (peak to peak) during expansions, sales of new homes remained level (peak to peak) and fell during recessions. The recent declines, however, have caused deep cuts in both existing and new home sales. By 1981, sales of existing homes fell to 2.3 million (a 40% decline from three years earlier), and sales of new homes fell to 0.4 million (a 48% decline from the 1978 level).

Several factors have often been cited as responsible for the upward trend of housing sales in the 1970's, including price expectations, low real interest rates, and shifts in the demographic characteristics of the population as noted earlier. Regardless of the underlying causes, the boom in housing demand did not act to increase the size of the overall housing stock so much as to increase the frequency with which ownership of existing housing was transferred. Sales of existing homes greatly outnumbered sales of newly constructed units, and the growth during the past decade has been concentrated among existing homes. Of the 3.0 million units sold in 1973,

2.3 million were existing units, and 0.6 million new houses. At the following cyclical peak in 1978, total sales of single family homes increased to 4.7 million, of which 3.9 million were existing and 0.8 million were new units. Thus from the 1973 to the 1978 peak, sales of existing single family homes increased by 70 percent, while sales of new units increased by just 29 percent.

Charts 13 through 15 show the attitudes toward the housing market, with the overall market evaluation closely paralleling sales. Tight credit and buy-in-advance rationales dominated consumer reasoning, as in the car market. The record peak for mentions of tight credit for the housing market was 83 percent in November 1981. By April 1982, references to high interest rates stood at 74 percent--still near record high levels.

These attitudes about buying conditions affect saving behavior through debt acquisition. Charts 16 and 17 show that the relationship of buy-in-advance price rationales and debt acquisition is quite close. Attitudes towards credit conditions show a similar relationship with a longer lead time.

The aversion to high interest rates was also documented by the continued widespread postponment of purchases. In the April 1982 survey, one-third of all households reported that they had postponed making a purchase due to high interest rates, unchanged from the January and February 1982 readings (see Table 5). The vehicle and housing markets each recorded postponement by 12 percent of all families. The median difference between the interest rate that would have been charged on the postponed purchase and the highest interest rate the consumer would be willing to pay was 4.9% across all items, essentially unchanged during early 1982.

Public Policy

In the 1960's and 1970's monetary policy acted to monetize the federal budget deficits--that is, federal deficits were accomodated by putting more money into circulation, rather than borrowing more money from the private financial market. This practice resulted in lower interest rates and higher inflation rates. Since the change in monetary policy in late 1979, the federal government has directly competed with the business and the consumer sectors for available funds. The new procedure leads to lower inflation rates and higher and more variable interest rates. If during the decade of the 1980's the basic elements of Reagan's economic policies remain unchanged--that is, a restrictive monetary policy coupled with personal income tax rates indexed for inflation--the burden of economic adjustment will be enforced, not by inflation, but by interest rates. During the 1980's the combination of these policies will mean that the government will finance its deficit out of consumer saving. When federal deficits were surreptitiously financed by an easy monetary policy, inflation was often called the cruelest tax of all. During the 1980's, interest rates may well deserve to replace inflation as the cruelest tax. Unlike inflation which pervaded almost every aspect of the economy, however, the adverse impact of higher interest rates is more concentrated in the house and vehicle markets, and therefore is less likely to arouse unanimous opposition.

Each of the three major actors in the macro economy needs access to borrowed funds. Business needs investment funds to expand and modernize; consumers need funds to finance purchases and hence provide the rationale for business investment; and the government needs to finance budget deficits. Since the pool of loanable funds is now shallow, each actor cannot have as much as it needs. Reagan policies indicate the following priorities: business investment comes first, after, of course, the needs of government--

although governmental needs are viewed as temporary, since a balanced budget continues to be the proclaimed goal, however elusive. The ultimate effect of these policies is that the consumer sector must provide the financial flexibility for the economy to adjust, and this flexibility comes from consumer saving.

A current policy dilemma is whether declines in interest rates or declines in personal income taxes would provide the greater stimulus to consumer sales. Although declines in interest rates are needed for a sustained recovery, if personal taxes are increased to reduce the deficit this might weaken future demand. Elimination of the tax cut may be preferred if it would directly translate into lower interest rates on mortgages and installment loans. If, on the other hand, interest rates were not significantly reduced, then the elimination of the tax cut would leave consumer demand in a weaker position.

Respondents in the April 1982 survey were asked how they thought the expected federal budget deficits would affect future business conditions. More respondents expected the economy to worsen rather than improve under the weight of larger budget deficits (33 versus 7 percent). However, the majority (53 percent) thought the expected federal budget deficits would not have any significant impact on upcoming business conditions (see Table 7).

One of the most frequently suggested methods to lower budget deficits has been to raise personal income taxes by delaying the implementation of the sheduled tax cuts. When asked whether increasing personal income taxes to lower the deficit would help improve or worsen business conditions, respondents more frequently expected business conditions to worsen (44 percent) or remain unchanged (36 percent) rather than to improve (14 percent) if taxes were raised. On balance, raising personal income taxes to reduce the deficit was viewed as more damaging to future business conditions than the expected deficit itself. Even among those respondents that expected the budget

deficits to worsen future business conditions, very few thought that increases in personal income taxes would improve business conditions.

The April 1982 survey also measured consumer attitudes toward tax credits for purchases of newly built houses and domestic autos. When asked whether they favored giving federal tax credits to purchasers, 59 percent of all families thought it would be a good idea, while 31 percent had unfavorable opinions (see Table 6). When respondents were asked why they favored or opposed the tax credit proposal, the most frequent reasons given in support of the program were that it would stimulate the economy and help consumers to afford these purchases. Unfavorable opinions about the tax credits were based on cost, and doubts about the effectiveness and the fairness of the proposal.

Respondents were asked if they would still favor the tax credit proposal if it resulted in an increase in personal income taxes. The original 59 percent that favored the proposal was reduced to just 23 percent that would favor the proposal if income taxes were increased as a result. Similarly, the proportion that viewed these tax credits with disfavor doubled from 31 to 62 percent. Despite the lack of support for the passage of the tax credit proposal if taxes had to be increased, 22 percent of American households reported that if the tax credits were adopted they would be more likely to make a purchase. Among all households, 16 percent mentioned being more likely to purchase a domestic vehicle, and 11 percent mentioned the purchase of a newly built house.

CHART 1

THE INDEX OF CONSUMER SENTIMENT

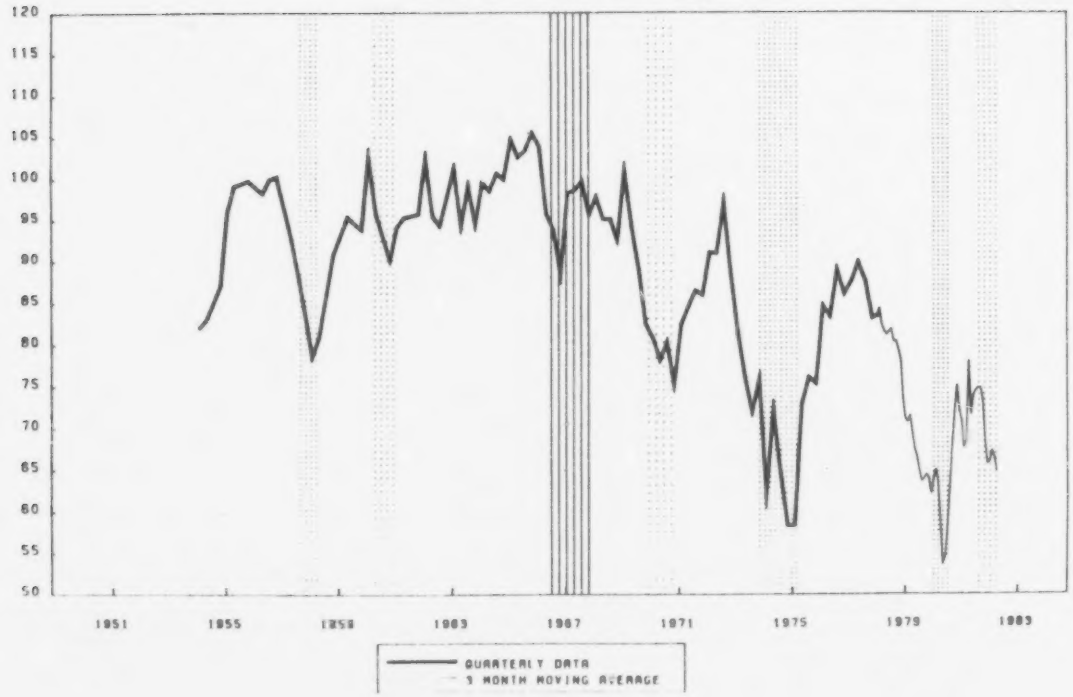

CHART 2

NIA SAVING RATE

(4 QUARTER MOVING AVERAGE)

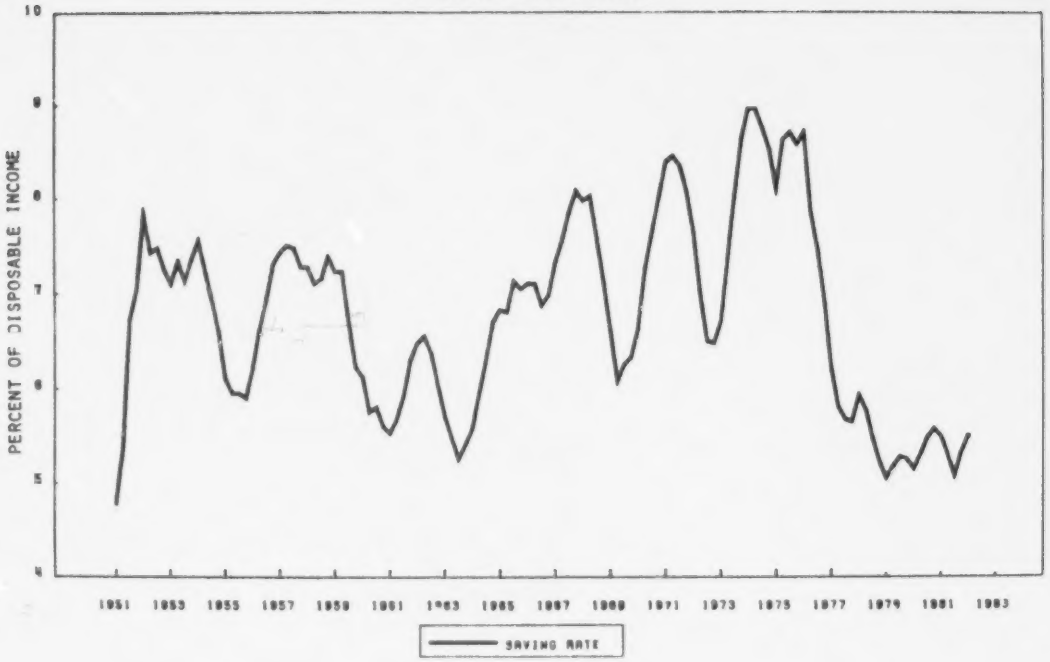


CHART 3

FRB SAVING RATE

(4 QUARTER MOVING AVERAGE)

CHART 4

NIA AND FRB SAVING RATES

(4 QUARTER MOVING AVERAGES)

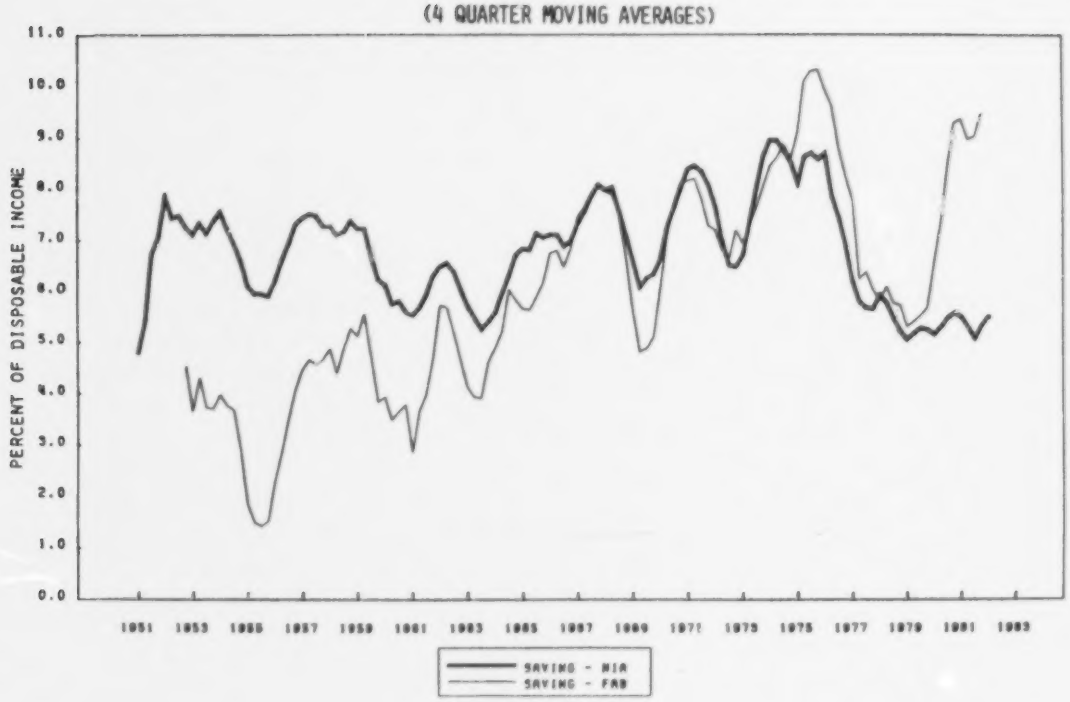


CHART 5

FRB MINUS NIA SAVING RATES

(4 QUARTER MOVING AVERAGES)

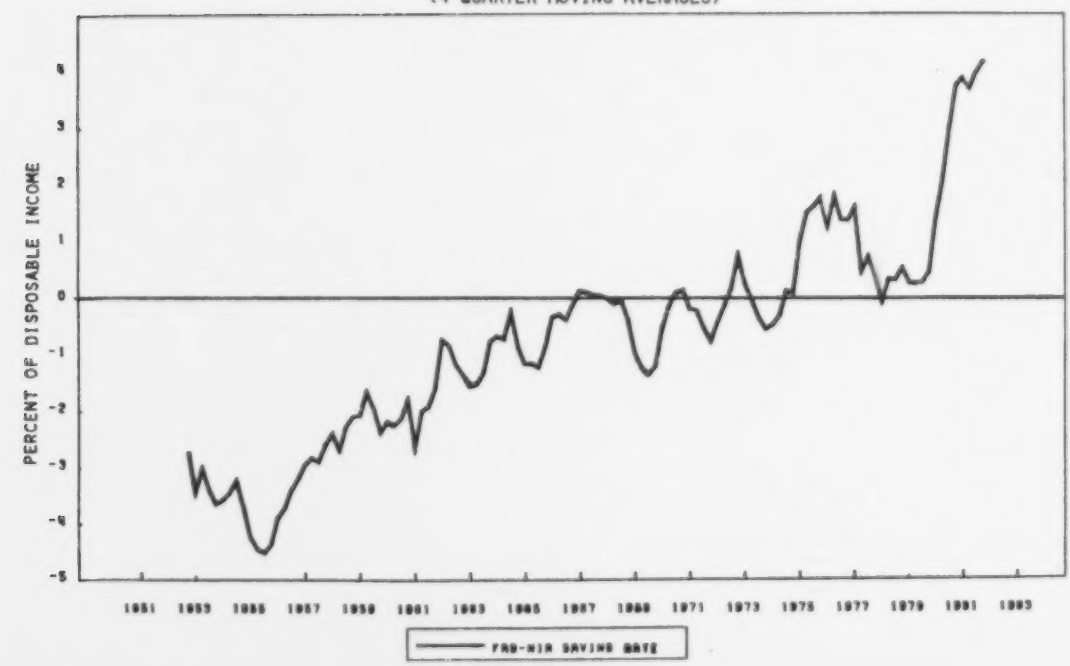

TABLE 1

FLOW OF FUNDS ACCOUNTS, SECTOR DISCREPANCIES

(Billions of Current Dollars)

| | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 |
|---|---|---|---|---|---|---|---|---|---|---|
| FRB Saving | 58.4 | 74.0 | 85.8 | 113.1 | 98.3 | 78.9 | 83.6 | 93.4 | 169.5 | 191.4 |
| NIA Saving | 52.6 | 79.0 | 85.1 | 94.3 | 82.5 | 74.1 | 76.3 | 86.2 | 101.3 | 107.3 |
| Difference | 5.8 | -5.0 | 0.7 | 18.8 | 15.8 | 4.8 | 7.3 | 7.2 | 68.2 | 84.1 |
| Sector Discrepancies | | | | | | | | | | |
| All Sectors | -4.7 | * | 0.4 | 4.2 | 5.7 | 4.0 | 4.2 | 8.6 | -8.6 | 5.4 |
| Households | -23.2 | -15.4 | -14.4 | -27.8 | -35.0 | -34.9 | -43.3 | -50.3 | -79.6 | -86.5 |
| Business | 16.7 | 16.7 | 12.9 | 17.0 | 22.0 | 35.7 | 29.5 | 26.2 | 44.5 | 49.0 |
| Government | 5.1 | 3.9 | 4.2 | 9.5 | 13.1 | 12.6 | 15.3 | 18.4 | 9.0 | 19.9 |
| Financial | -1.3 | -3.1 | 0.1 | * | -4.0 | -6.8 | -8.1 | -10.3 | -10.9 | -4.7 |
| Foreign | -1.9 | -2.1 | -2.4 | 5.5 | 9.6 | -2.7 | 10.7 | 24.6 | 28.5 | 27.6 |

Source: Federal Reserve Board

CHART 6

RATIO OF HOUSEHOLD SECTOR FINANCIAL ASSETS TO LIABILITIES

CHART 7

NET ACQUISITION OF FINANCIAL ASSETS AND LIABILITIES AS A PERCENT OF INCOME

(4 QUARTER MOVING AVERAGE)

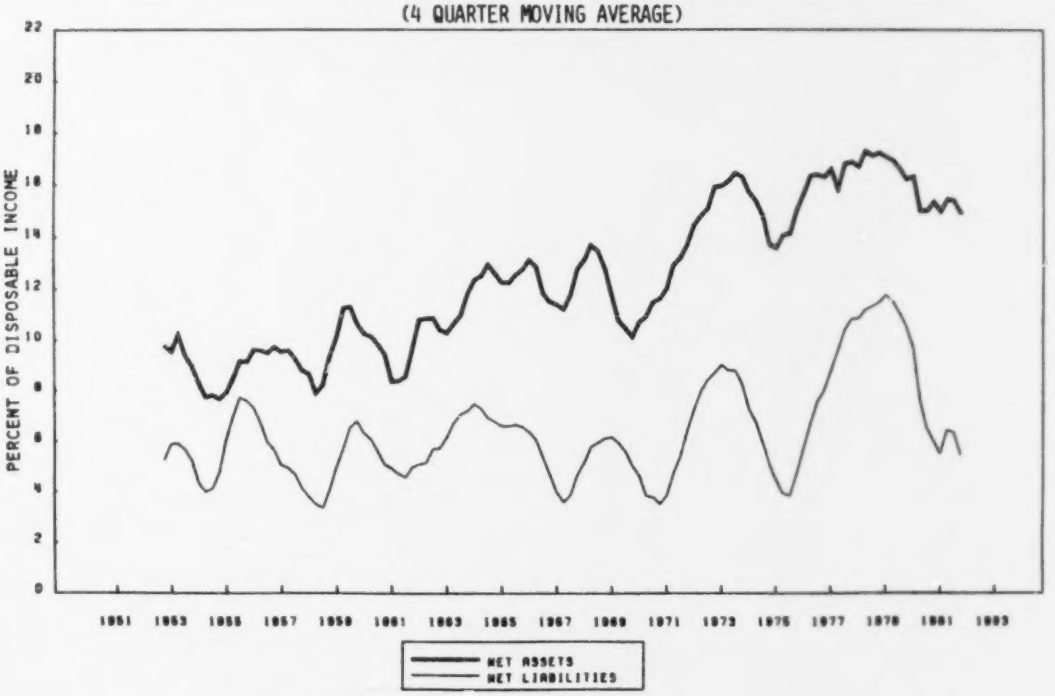

TABLE 2

AGGREGATE FINANCIAL ASSET/LIABILITY RATIOS FOR THE HOUSEHOLD SECTOR, 1952-1981

| Asset/Debt Ratios | 1952 | 1957 | 1962 | 1967 | 1972 | 1977 | 1981 |
|---|---|---|---|---|---|---|---|
| Total assets/total liabilities | 5.29 | 4.26 | 4.07 | 4.12 | 3.85 | 2.95 | 2.92 |
| Savings deposits/total liabilities | 0.81 | 0.73 | 0.78 | 0.84 | 0.91 | 0.95 | 0.96 |
| Bonds/Total Liabilities | 1.07 | 0.75 | 0.59 | 0.48 | 0.42 | 0.42 | 0.41 |
| Equities/Total Liabilities | 1.73 | 1.54 | 1.63 | 1.76 | 1.47 | 0.70 | 0.68 |
| Total assets/total liabilities-mortgages | 12.78 | 11.47 | 11.54 | 11.07 | 9.89 | 8.05 | 8.26 |
| Savings deposits/total liabilities-mortgages | 1.95 | 1.96 | 2.20 | 2.25 | 2.35 | 2.60 | 2.71 |
| **Asset-debt/Income Ratios** | | | | | | | |
| Total assets/income | 2.19 | 2.40 | 2.82 | 3.08 | 2.95 | 2.34 | 2.32 |
| Savings deposits/income | 0.33 | 0.41 | 0.54 | 0.63 | 0.70 | 0.75 | 0.76 |
| Total liabilities/income | 0.41 | 0.56 | 0.69 | 0.75 | 0.77 | 0.79 | 0.79 |
| Total liabilities-mortgages/income | 0.17 | 0.21 | 0.24 | 0.28 | 0.30 | 0.29 | 0.28 |

Source: Federal Reserve Board

TABLE 3

PORTFOLIO SHARES OF TOTAL HOUSEHOLD FINANCIAL ASSETS AND LIABILITIES, 1952-1981

| | 1952 | 1957 | 1962 | 1967 | 1972 | 1977 | 1981 |
|---|---|---|---|---|---|---|---|
| Total Financial Assets | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| Demand deposits and currency | 12 | 9 | 7 | 6 | 6 | 7 | 6 |
| Savings deposits | 15 | 17 | 19 | 20 | 24 | 32 | 33 |
| Government & corporate bonds | 20 | 18 | 15 | 12 | 11 | 14 | 14 |
| Corporate equities | 33 | 36 | 40 | 43 | 38 | 24 | 23 |
| Life insurance reserves | 12 | 10 | 8 | 7 | 6 | 6 | 5 |
| Pension fund reserves | 6 | 8 | 10 | 11 | 13 | 15 | 17 |
| Miscellaneous assets | 2 | 2 | 1 | 1 | 2 | 2 | 2 |
| Total Liabilities | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| Home mortgages | 59 | 63 | 65 | 63 | 61 | 63 | 64 |
| Installment credit | 21 | 20 | 19 | 20 | 22 | 22 | 21 |
| Other consumer credit | 12 | 10 | 8 | 8 | 7 | 6 | 5 |
| Miscellaneous liabilities | 8 | 7 | 8 | 9 | 10 | 9 | 10 |

Source: Federal Reserve Board

TABLE 4

TRENDS IN SHARES OF PERSONAL INCOME, 1952-1981

| Personal Income | 1952 | 1957 | 1962 | 1967 | 1972 | 1977 | 1981 |
|---|---|---|---|---|---|---|---|
| Labor Income | 69% | 69% | 69% | 69% | 69% | 67% | 65% |
| Capital Income | 26 | 25 | 24 | 23 | 20 | 20 | 22 |
| Interest | 4 | 5 | 6 | 7 | 8 | 10 | 12 |
| Other | 22 | 20 | 18 | 16 | 12 | 10 | 10 |
| Transfer Income | 5 | 6 | 7 | 8 | 11 | 13 | 13 |
| Total | 100% | 100% | 100% | 100% | 100% | 100% | 100% |



Source: Bureau of Economic Analysis

Labor income includes wages, salaries, and other labor income.
Other capital income includes dividends, rental income, and proprietors' income.
Transfer income includes old age, disability and health insurance benefits, unemployment compensation, AFDC, veterans benefits, government retirement programs, and other transfers.

CHART 8

RETAIL UNIT SALES OF CARS

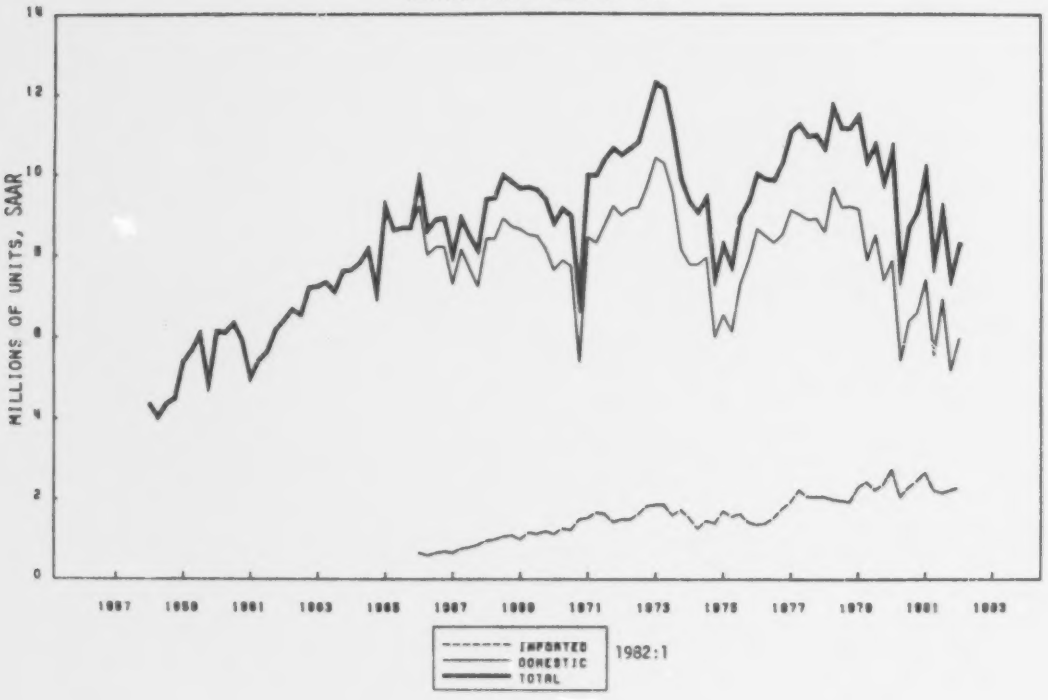


CHART 9

BUYING ATTITUDES AND TOTAL UNIT CAR SALES

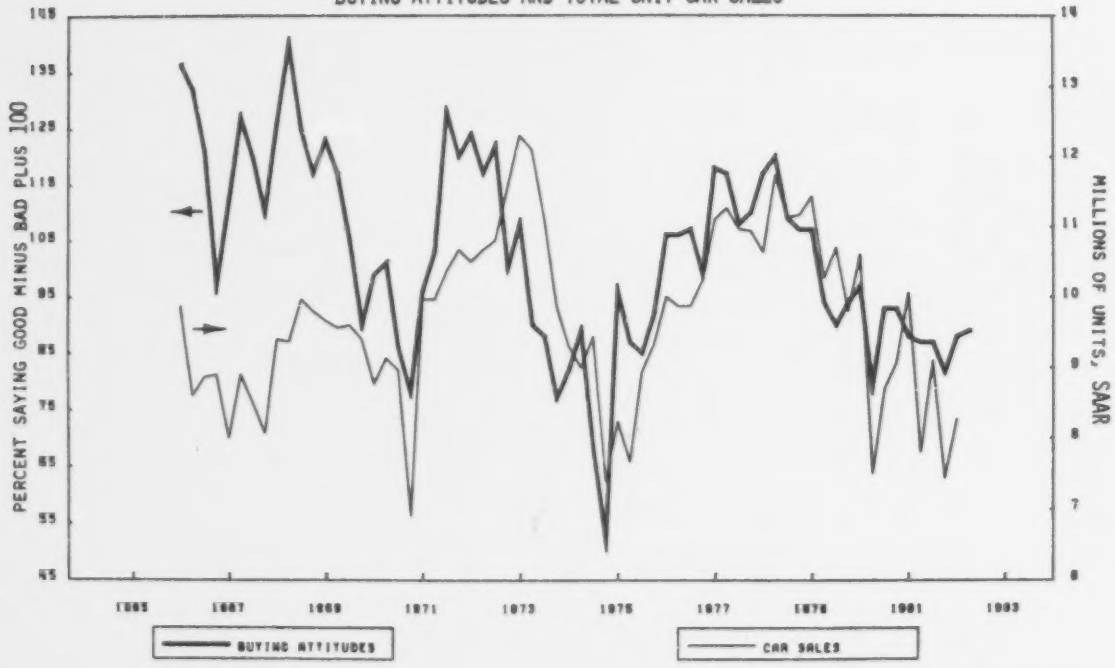

CHART 10

REASONS FOR OPINIONS ABOUT BUYING CONDITIONS FOR CARS

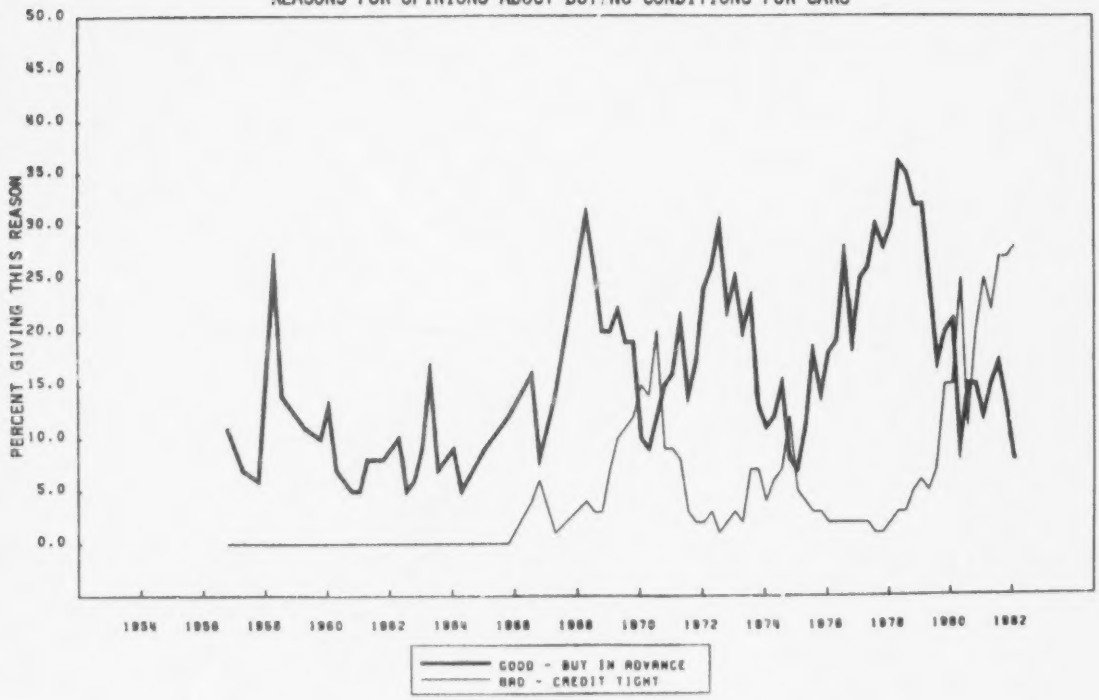


CHART 11

REASONS FOR OPINIONS ABOUT BUYING CONDITIONS FOR CARS

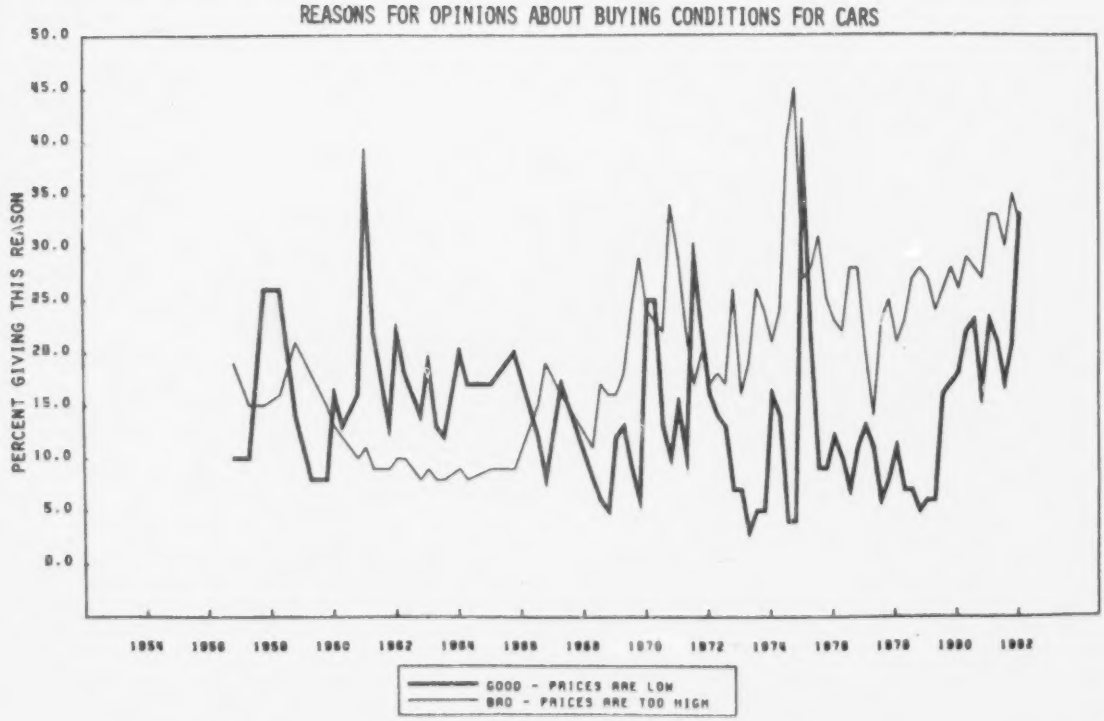

CHART 12

UNIT SALES OF SINGLE FAMILY HOUSES

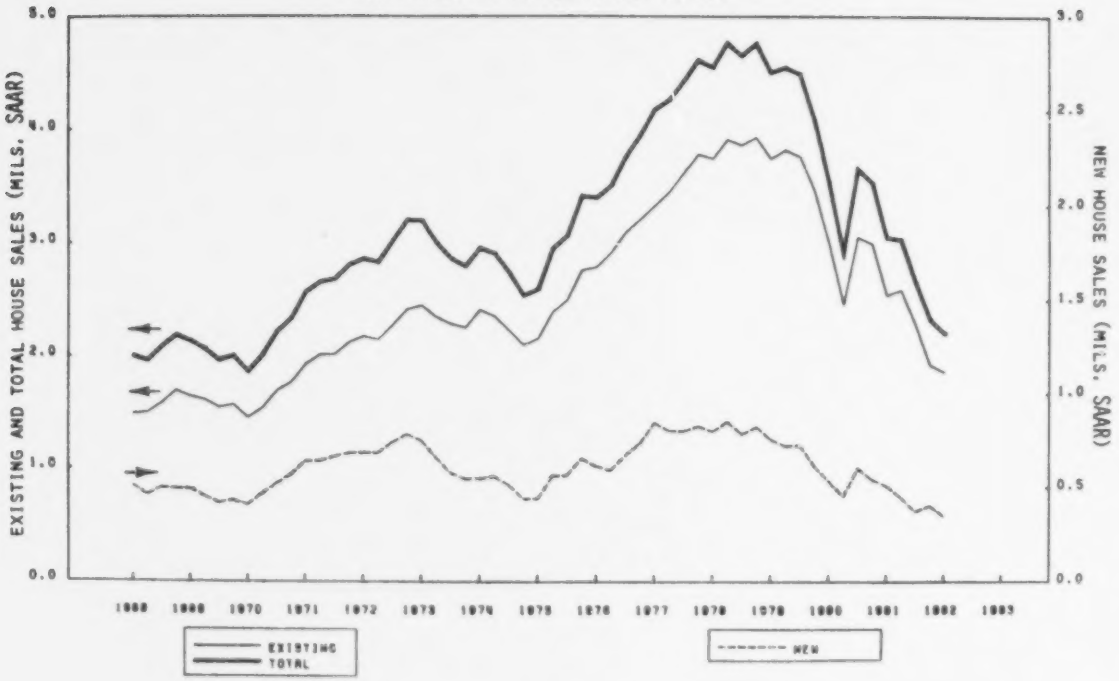


CHART 13

BUYING CONDITIONS AND TOTAL UNIT HOUSE SALES

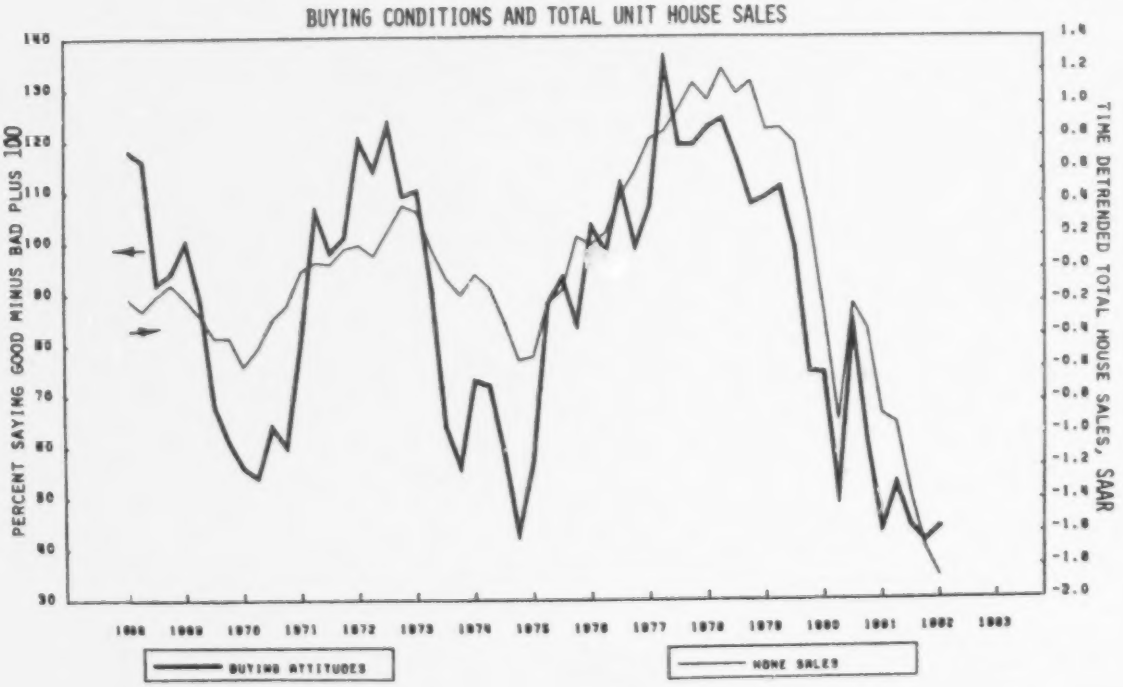

CHART 14

REASONS FOR OPINIONS ABOUT BUYING CONDITIONS FOR HOUSES

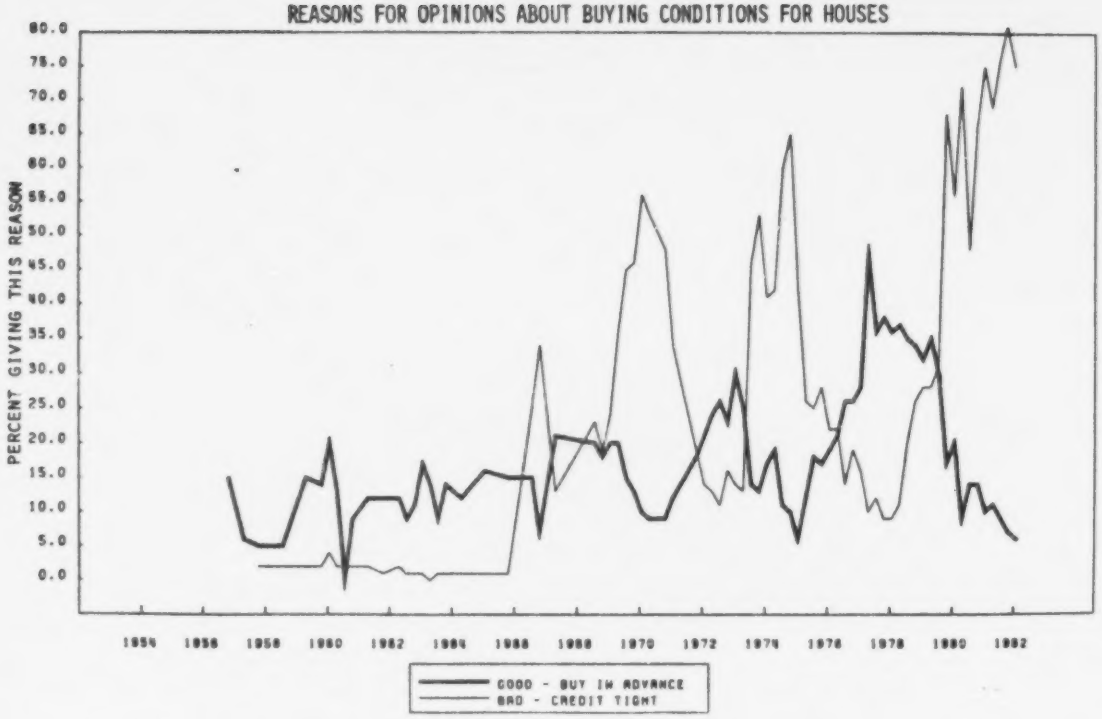


CHART 15

REASONS FOR OPINIONS ABOUT BUYING CONDITIONS FOR HOUSES

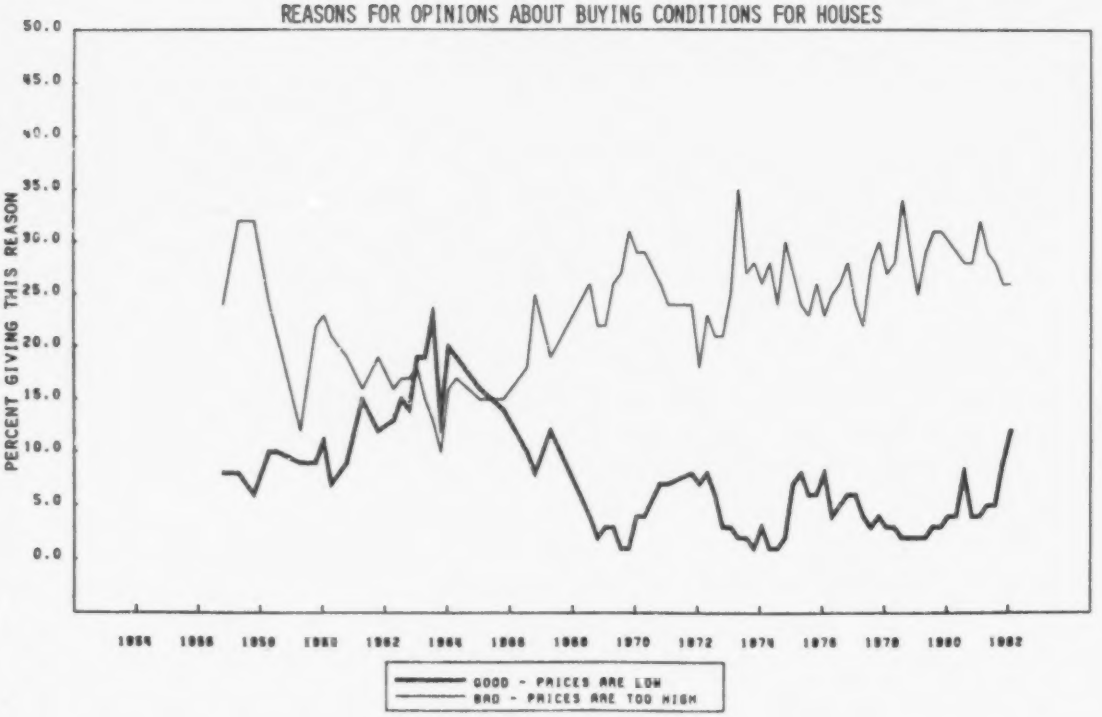

CHART 16

BUY-IN-ADVANCE PRICE RATIONALES AND
NET ACQUISITION OF LIABILITIES AS A PERCENT OF INCOME
(4 QUARTER MOVING AVERAGE)

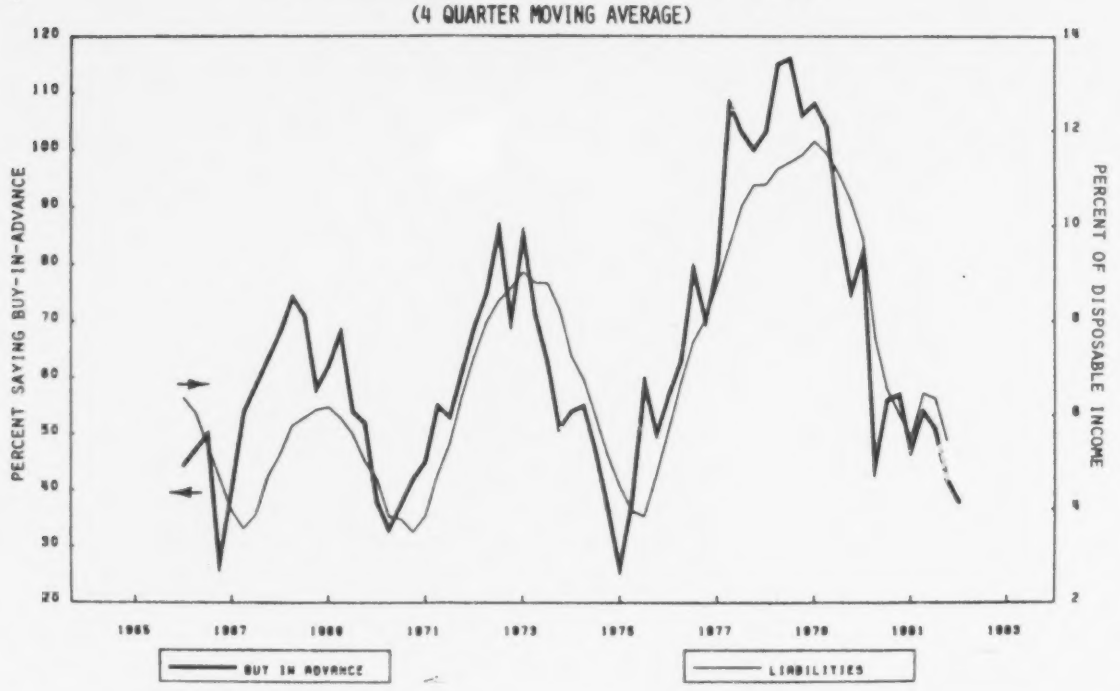


CHART 17

TIGHT CREDIT (REVERSE SCALE) AND NET ACQUISITION
OF LIABILITIES AS A PERCENT OF INCOME
(4 QUARTER MOVING AVERAGE)

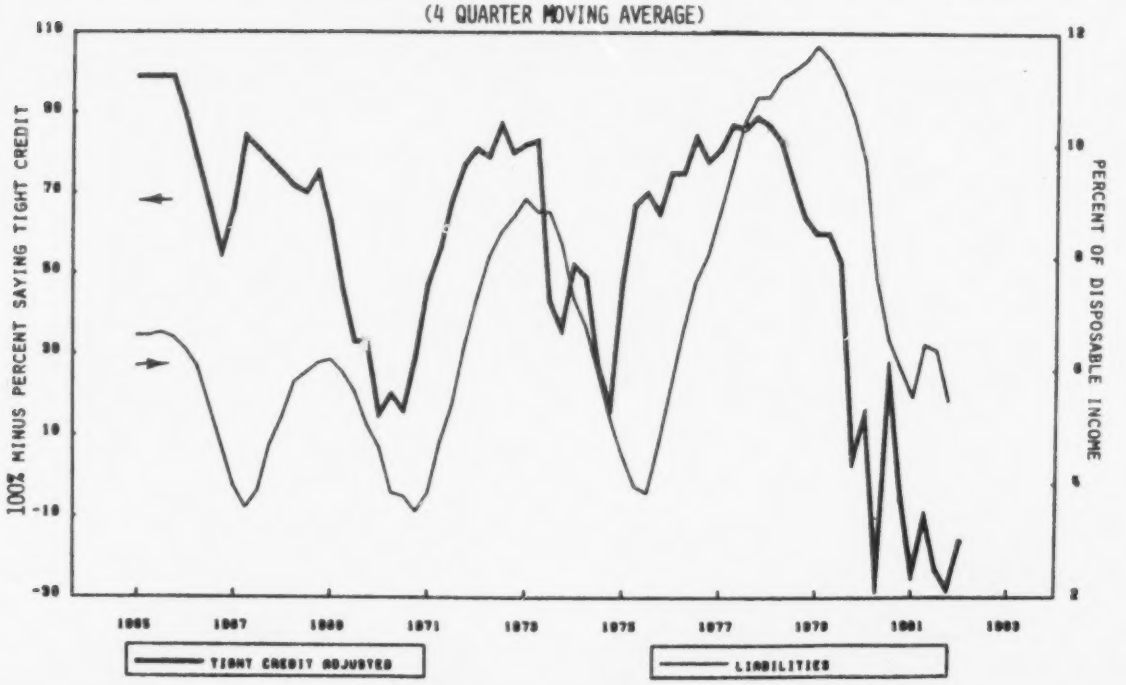

TABLE 5

INTEREST RATE EFFECT ON CONSUMER PURCHASES
DURING THE LAST SIX MONTHS

| | Oct. 1981 | Nov. 1981 | Jan. 1982 | Feb. 1982 | Apr. 1982 |
|---|---|---|---|---|---|
| Postponed Purchases:[a] | 30% | 37% | 33% | 33% | 33% |
| Vehicles | 11 | 15 | 12 | 10 | 12 |
| House, home repairs | 11 | 15 | 10 | 11 | 12 |
| Household durables | 8 | 8 | 10 | 10 | 8 |
| Other | 4 | 5 | 6 | 7 | 8 |
| Did not postpone purchase | 67 | 62 | 66 | 66 | 67 |
| Don't know, not ascertained | 3 | 1 | 1 | 1 | * |
| Total | 100% | 100% | 100% | 100% | 100% |
| Interest rate that would have been charged on postponed purchase | | | | | |
| Median | 17.3% | 17.6% | 17.5% | 17.8% | 17.5% |
| Highest interest willing to pay to make purchases | | | | | |
| Median | 11.8% | 12.0% | 12.0% | 12.0% | 12.1% |
| Difference between interest rate charged and willing to pay | | | | | |
| Median | 4.6% | 5.0% | 4.9% | 5.3% | 4.9% |

*Less than half of one percent.

[a]Items add to more than total, due to multiple mentions.

The questions asked were: "Have interest rates caused you to postpone making any purchases during the last six months?" "What was postponed?", "What interest rate would have been charged on any money borrowed for (ITEM)?" and "What is the highest rate at which you would have purchased (ITEM)?"

TABLE 6

CONSUMER ATTITUDES TOWARD TAX CREDITS FOR PURCHASES OF NEWLY BUILT HOUSES AND DOMESTIC VEHICLES

(April 1982)

| Opinion | General Opinion of Tax Credits | Opinion if Taxes Had to be Increased |
|---|---|---|
| Good idea | 59% | 23% |
| Pro-con | 3 | 3 |
| Bad idea | 31 | 62 |
| DK, NA | 7 | 12 |
| Total | 100% | 100% |
| Cases | 702 | 702 |

| Likelihood of Purchase With Tax Credit... | |
|---|---|
| More likely to purchase | 22% |
| New domestic car or truck | 11 |
| Newly built house | 6 |
| Both new vehicle and house | 5 |
| No difference in purchase plans | 68 |
| Don't know | 10 |
| Total | 100% |

The questions were: "It has been proposed that the government give a tax credit to purchasers of domestic autos and newly built houses. Do you think this proposal is a good idea or a bad idea?" "Why do you say so?" And: "If as a result income taxes were increased, do you still think this proposal would be a good idea?"

"Would a tax credit make you (and your family living there) more likely to buy a new domestic car or truck, more likley to buy a newly built house, or wouldn't it make any difference?"

TABLE 7

EXPECTED IMPACT OF FEDERAL BUDGET DEFICIT ON THE ECONOMY

(April 1982)

| Expected Impact on Business Conditions | From Expected Budget Deficit | From Increase in Personal Taxes |
|---|---|---|
| Better | 7% | 14% |
| Worse | 33 | 44 |
| No difference | 53 | 36 |
| DK,NA | 7 | 6 |
| Total | 100% | 100% |
| Cases | 702 | 702 |

| | Impact of Budget Deficits on Business Conditions | |
|---|---|---|
| | Worse | No Difference |
| All Households | 33% | 53% |
| Higher taxes to reduce deficits would make business conditions ... | | |
| Better | 14 | 11 |
| Worse | 56 | 39 |
| No difference | 29 | 45 |
| DK; NA | 1 | 5 |
| Total | 100% | 100% |

The questions were: "Do you think that the Federal budget deficit expected during the next year will make business conditions in the country as a whole better or worse than at present, or won't it make much difference?" and

"Do you think that raising personal income taxes to reduce the federal deficit would make business conditions in the country as a whole better or worse, or wouldn't it make much difference?"